

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND**

Brown County State Park
1405 State Road 46 West
Nashville, Indiana 47448

June 21, 2007
12:00pm-2:00pm

REGULAR SESSION

Board Members Present

Ken Cochran, Chair
Matt Murphy
Ryan Kitchell
Kathy Ettensohn

Board Members Absent

Bob Welch
Regina Overton

Others Present

Doug Kryscio, Mercer Investment Consulting
Curt Smith, Strategic Investment Solutions
Bridget Anderson, KPGM
Linda Imonti, KPMG

PERF Staff Present

Terren Magid, Executive Director
Andrea Unzicker, General Counsel
Dave Huffman, Chief Technology Officer & Deputy Director
Shawn Wischmeier, Chief Investment Officer
Patricia Bush, Director of Finance
Erin Hankins, Executive Assistant
Jeri Mains, Legal Assistant

Meeting called to order at 12:10 by Chairman Cochran.

I. Approval of Minutes

MOTION duly made and carried to approve the minutes from the February 9, 2007 board meeting.

Proposed by: Matt Murphy
Seconded by: Kathy Ettensohn
Votes: 4 in favor, 0 opposed, 0 abstentions

II. Old Business

• Legislative Update

Andrea Unzicker discussed the bills that were passed during the legislative session as well as the implementation plans for the new legislation related to PERF.

III. New Business

• Financial & Budget

Financial Update

Patricia Bush reviewed the financials with the Board and pointed out Net Assets of approximately \$17.4 billion are up \$982.4 million (6%) from March 31, 2007 and up \$2.8 billion (18.8%) from May 31, 2006.

Administrative expenses are projected to come in under budget and Full-year Investment fees projected to be \$61 million.

Budget Approval

Ms. Bush reviewed the Fiscal Year 2008 Budget with the Board. Ms. Bush provided the Board with FY08 Goals, the FY08 Budget Process, FY08 Budget Summary, Highlights and a Budget Comparison of Administrative Expenses for FY 08 versus FY 07.

It is recommended that the board approve the Fiscal Year 2008 Budget.

MOTION duly made and carried to approve the Fiscal Year 2008 Budget.

Proposed by: Kathy Ettensohn
Seconded by: Matt Murphy
Votes: 4 in favor, 0 opposed, 0 abstentions

- **Investments**

Investments Update

Shawn Wischmeier reviewed the new investment reports with the Board. The investment reports are intended to provide a comprehensive view of the investments and investment decisions made by the Board.

These reports illustrate the overall portfolio performance year-over-year as well as recent performance. The reports further illustrate the investments in alternatives as well as a detailed breakdown of the various asset classes.

ASA Guaranteed Rate Approval

Mr. Wischmeier reviewed the ASA Guaranteed Rate Approval with the Board. At the March 19, 2004 Board meeting, the Board adopted a motion that specified the method to be used in setting the annual guaranteed interest rate in the ASA program. As adopted, the motion specified that the guaranteed rate shall be set equal to the five year moving average of the CRIF (rounded to the nearest 25 basis points) as of the end of the preceding calendar year with any change in a given year limited to +/- 0.50%.

The 5-year return of the CRIF as of December 31, 2006 was 9.1% net of fees. The current guaranteed option interest rate is 6.00%. Therefore, based upon the methodology adopted by the Board, the interest rate for FY 2008 would be 6.50%. Per methodology, recommend increasing guaranteed fund rate from 6.00% for FY2007 to 6.50% for FY2008.

It is recommended that the board continue with this methodology and adopt a motion that sets the interest rate payable under the ASA Guaranteed Rate option at 6.50% for FY 2008.

MOTION duly made and carried to continue with this methodology and set the interest rate payable under the ASA Guaranteed Rate option at 6.50% for FY 2008.

Proposed by:

Kathy Ettensohn

Seconded by:

Ryan Kitchell

Votes:

4 in favor, 0 opposed, 0 abstentions

Private Equity Recommendations

Mr. Wischmeier introduced Curt Smith and discussed four private equity opportunities. The first investment proposal is to Vista Equity Partners III.

Vista is raising a \$1.1 billion fund that invests in software and technology enabled services companies. Vista targets low risk, mature software businesses with steady revenue and high barriers to entry that are underperforming relative to their market opportunities. Vista takes control positions to effect change with a focus on reducing costs by gaining operational efficiencies in order to create value.

The previous funds generated upper quartile returns; Fund III will continue the same investment strategy as Fund II.

It is recommended that the board approve up to a \$30 million commitment to Vista Equity Partners III pending final due diligence and document review by legal counsel.

MOTION duly made and carried to approve up to a \$30 million commitment to Vista Equity Partners III pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Ryan Kitchell</i>
<i>Votes:</i>	<i>4 in favor, 0 opposed, 0 abstentions</i>

The second investment proposal is to Avenue Special Situations Fund V, L.P. Avenue is raising the \$4 billion fund that invests primarily in U.S. debt and equity of companies experiencing financial challenges. Avenue focuses on companies with turnaround potential, in industries that are in turmoil, or that are undervalued because of discrete extraordinary events. Avenue invests at low valuation multiples using a top-down analytical approach with focus on senior debt.

The previous funds have generated upper quartile returns against Venture Economics; Fund V will continue the same investment strategy as Fund IV.

It is recommended that the board approve up to a \$30 million commitment to Avenue Special Situations Fund V, L.P. pending final due diligence and document review by legal counsel.

MOTION duly made and carried to approve a commitment of up to a \$30 million commitment to Avenue Special Situations Fund V, L.P. pending final due diligence and document review by legal counsel and a term of 12 years with up to three one year extensions.

<i>Proposed by:</i>	<i>Ryan Kitchell</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>4 in favor, 0 opposed, 0 abstentions</i>

The third investment proposal is to Lion Capital Fund II L.P. Lion Capital is raising a €1.5 billion fund that invests in mid-size and large consumer-

facing companies in Western Europe. The fund takes control positions and creates value inside portfolio companies by focusing on operating efficiencies. Deals are sourced primarily through Lion Capital's vast network of industry contacts which enables them to work with companies ahead of the auction process.

The previous fund has generated upper quartile returns as measured by Venture Economics; Fund II will continue the same investment strategy as Fund I.

It is recommended that the board approve up to a €25 million commitment to Lion Capital Fund II L.P. pending final due diligence and document review by legal counsel.

MOTION duly made and carried to approve a commitment of up to a €25 million commitment to Lion Capital Fund II L.P. pending final due diligence and document review by legal counsel and a term of 12 years with up to three one year extensions.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Ryan Kitchell</i>
<i>Votes:</i>	<i>4 in favor, 0 opposed, 0 abstentions</i>

The fourth investment proposal is to Arch Venture Fund VII, LP. PERF had previously made a \$10M commitment to Arch Venture Fund VI in 2003. To date, Fund VI has a top quartile net IRR. Arch will utilize the same approach and structure as the prior venture funds.

It is recommended that the board approve up to a \$15 million commitment to Arch Venture Fund VII, LP. pending final due diligence and document review by legal counsel.

MOTION duly made and carried to approve a commitment of up to a \$15 million commitment to Arch Venture Fund VII, LP. pending final due diligence and document review by legal counsel and a term of 12 years with up to three one year extensions.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Kathy Ettensohn</i>
<i>Votes:</i>	<i>4 in favor, 0 opposed, 0 abstentions</i>

- **Benefits**

New Units & Enlargements

Mr. Magid discussed with the board that twice a year the board is asked to approve new units and enlargements. These are new groups that want to join PERF for the first time or current PERF covered groups that want to add additional PERF covered positions.

MOTION duly made and carried to the new units and enlargements.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Ryan Kitchell</i>
<i>Votes:</i>	<i>4 in favor, 0 opposed, 0 abstentions</i>

IV. Executive Director Report

Terren Magid reviewed Fiscal Year 2008 plan with the Board. He discussed what PERF has accomplished in FY 07, score card measures, Financial Performance, Customer Service, System Measures and May Highlights.

Mr. Magid then discussed where PERF will be going for FY 08 and how we will get there. PERF will continue to build the foundation developed in FY 07 through data integrity, improved internal controls, customer service and financial performance.

V. Date of Next Meeting

August 17, 2007 at 1 p.m.

VI. Adjournment

Adjourned at 2:09 p.m.